



## **PUBLIC DISCLOSURE**

January 27, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Charleroi Federal Savings Bank  
Charter Number 703866

101 Mckean Avenue, Charleroi, PA 15022

Office of the Comptroller of the Currency

Corporate One Office Park, Bldg 2, 4075 Monroeville Blvd, Suite 300, Monroeville, PA  
15146-2529

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is satisfactory. The LTD ratio is reasonable given the bank's size, financial condition, assessment area (AA), credit needs, and relevant competitive factors;
- A substantial majority of the residential real estate loans originated are in the bank's AA;
- The bank's record of lending to borrowers of different incomes is satisfactory and the performance reflects reasonable distribution;
- The bank's record of lending to borrowers in geographies of different income levels is satisfactory and the performance reflects reasonable distribution; and
- The bank's community development (CD) activities demonstrate an overall adequate responsiveness to the CD needs of its AA.

**Scope of Examination**

Charleroi Federal Savings Bank (CFSB) was evaluated under the Intermediate Small Bank (ISB) examination procedures, which include a lending test and a CD test. The lending test evaluates the institutions record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the institution's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

CRA activities at CFSB were completed using full-scope review procedures for its AA. Our review covered the bank's performance from July 1, 2009 through December 31, 2011. Residential mortgage loans are the bank's primary loan product and focus of this examination.

In order to evaluate CFSB's record of originating residential mortgage loans, we analyzed loan data CFSB collected and reported in accordance with the Home Mortgage Disclosure Act (HMDA) requirements. In order to ensure the reliability of HMDA loan data, we performed a Data Integrity (DI) examination during the second quarter of 2013. In conjunction with the DI examination, we evaluated CFSB's processes to ensure the accuracy of collected HMDA data and tested a sample of CFSB's reported HMDA loans. We tested the accuracy of CFSB's HMDA loan data by comparing it against CFSB's loan file documentation. The DI examination revealed that CFSB's publicly available HMDA loan data could be relied on for the purposes of this CRA evaluation.

## Description of Institution

CFSB is a federally chartered stock savings bank and a wholly owned subsidiary of CF Financial Corporation (Fincorp) headquartered in Charleroi, Pennsylvania in Washington County. The bank is primarily a one-to-four family lender with a long established presence, primarily in Washington, Fayette, and Westmoreland counties.

CFSB operates nine offices with its main branch located in Washington County and the remaining branches in the four contiguous counties in southwestern Pennsylvania. Table 1 lists the locations of the bank's offices and the income level of the geography (i.e., census tract) in which each is located. CFSB has traditional banking hours Monday through Friday, open later on Friday evenings until 6PM, and alternating later evening hours at one location on Monday evening and another location on Thursday evening. Four locations offer Saturday hours. Each branch office offers products and services typical of a community bank. Automated teller machine (ATM) services are available at all branch locations. The bank also offers an informational website and on-line banking services. The bank did not open or close any offices during the review period.

<b>Table 1 – CFSB Offices</b>			
	<b>Office Location</b>		<b>Geography Income Level</b>
	<b>Branch</b>	<b>County</b>	
1	Bentleyville	Washington	Moderate
2	Charleroi	Washington	Moderate
3	Connellsville	Fayette	Moderate
4	Hempfield	Westmoreland	Upper
5	Monongahela	Washington	Moderate
6	Peters Twp.	Washington	Upper
7	Rostraver	Westmoreland	Middle
8	Seven Fields	Butler	Upper
9	Washington	Washington	Upper

The institution is primarily a mortgage portfolio lender. The mortgage products include fixed-rate loans for the purchase, refinance and construction of one- to four-family and multi-family dwellings. Consumer loan offerings consist of home equity loans and lines of credit, and personal secured and unsecured loans. CFSB also offers a first time home buyer product. Commercial loans secured by real estate and other collateral, lines and letters of credit, and credit cards are offered to businesses.

Table 2 shows the distribution of loans by lending category.

<b>Table 2 - CFSB Investment in Loans (09/30/13 Uniform Bank Performance Report)</b>			
<b>Loan Category</b>	<b>Amount (\$000's)</b>	<b>Percent of Total Loans</b>	<b>Percent of Total Assets</b>
Real Estate	\$252,803	92.7%	45.3%
Commercial	\$9,250	3.4%	1.6%
Consumer	\$10,538	3.9%	1.9%
<b>Total</b>	<b>\$272,591</b>	<b>100.0%</b>	<b>48.8%</b>

Total assets increased from \$474.2 million at the last review period, reported as of June 30, 2009, to \$557.7 million as of September 30, 2013. During the same time-period, the loan portfolio grew from \$222.1 million to \$272.6 million, an increase of 22.8%, centered in residential real estate loans. As of the same date, CFSB's total deposits were \$486 million and Net Tier 1 Capital was \$68.9 million. CFSB does not have any borrowings.

According to the June 30, 2013 FDIC Summary of Deposits Market Share Report of the five county AA, CFSB was ranked 16th out of 49 institutions in their AA with 0.54% of deposits. PNC Bank is ranked first with 160 offices and 51.45% of the deposits. Other financial institutions include Bank of New York Mellon with three offices and 7.51% of the deposits, Citizens Bank of Pennsylvania with 117 offices and 7.16% of the deposits, BNY Mellon, NA with two offices and 4.56% of the deposits, First National Bank of Pennsylvania with 84 offices and 3.91% of the deposits, and Dollar Bank with 37 offices and 3.91% of the deposits.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its AA. At the prior CRA examination dated December 14, 2009, CFSB was rated "Satisfactory."

### **Description of Assessment Area**

CFSB's AA consists of five counties in the Pittsburgh, Pennsylvania Metropolitan Statistical Area (MSA) #38300; Allegheny, Butler, Fayette, Washington, and Westmoreland Counties. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The AA consists of 643 geographies, of which 5.60%, 23.79%, 48.21%, and 22.24% are categorized as low, moderate, middle and upper-income respectively. The percent categorized as Not Applicable were 0.16%. Of the nine AA branch offices, four, representing 44%, are located within moderate-income AA geographies.

For CFSB's AA, the 2000 census data reports a total population of 2,177,283, total households of 634,542, and total families of 583,677. HUD data, updated for 2011, reports the AA median family income to be \$64,000. Demographic information derived from annually updated HUD data, also reports that of total AA families, 19.39%, 18.41%, 21.74%, and 40.46% are of low, moderate, middle and upper-income respectively. The average unemployment rate as of November 2013 in the 5 counties that make up the AA was 6.4%, ranging from a low of 5.5% to a high of 7.9%. The average unemployment rate is lower than the Pennsylvania state unemployment rate at 6.8% for the same period.

For CFSB's AA, the majority of households (72%) were supported by wage or salaried jobs. For the same years, of AA households, 18% report persons over sixty five, 33% derive income from social security, and 11% are below the poverty level. The 2000 census data also reports that for total AA housing units, 66% were owner occupied and the median housing value equaled \$87,792. Housing stock consisted primarily of older homes with a median year built of 1955. These AA demographic factors reduce loan demand for residential mortgage loans. Particularly affected is residential mortgage demand from low and moderate-income borrowers.

According to 2011 business demographic data, 227,938 businesses operate within CFSB's AA, of which 4,300 are farms. Small CFSB AA businesses, which report revenues less than or equal to \$1 million, total 139,154 and represent 61% of total AA businesses. Approximately 57% of AA businesses reported having less than four employees. Of the AA businesses, 41% are classified as service related and 10% are classified as retail trade. Additional AA businesses are classified as follows: finance, insurance and real estate (6%), construction (7%), transportation and communication (3%), manufacturing (3%), wholesale trade (3%), agriculture, forestry and fishing (2%), and public administration (1%). Of the remaining AA businesses, 24% are non-classified.

Examiners contacted two community-based organizations within CFSB's AA. Examiners contacted the director of a local regional economic development agency. The contact identified community credit needs for community development and available affordable housing. The contact stated that the agency would welcome more active participation by area banks to support the agency's ongoing programs. In addition, the programs would be eligible for CRA credit. The contact identified the towns of Charleroi, Donora, and Monongahela as not having benefited from the Marcellus gas drilling boom, and their economic condition has not improved. The contact said the agency currently has working relationships with two local banks and specifically named CFSB. The contact said that CFSB has several offices in their area, and it makes it easy to work with them.

The second contact initiated by examiners was to a director of a community development corporation. The contact identified community credit needs for rehabilitating existing residential properties and creating affordable housing. The contact stated that the corporation would like to see area financial institutions seek out the available funding due to the limited resources of the corporation. The contact stated that area financial institutions have been responsive, but when it comes to the small business-lending program, banks typically do not participate because they want the entire amount of the loan relationship and are not willing to share.

## **Conclusions with Respect to Performance Criteria**

### **Lending Test**

CFSB's loan-to-deposit ratio as compared to the peer bank average loan-to-deposit ratio over the same period meets the standard of satisfactory performance. The analysis of CFSB's record of lending, measured by its loan-to-deposit ratio, was performed at the bank level. We compared CFSB's loan-to-deposit ratio against the average loan-to-deposit ratio of a local peer group of banks. The local peer group consisted of banks with assets totaling \$530 million or less located within the five counties in which CFSB operates.

Lending activity over the evaluation period was measured by comparing the fifteen quarter average loan-to-deposit ratios reported by CFSB and its local peer group reported since the previous evaluation. The fifteen quarters under analysis started October 1, 2009 and ran through September 30, 2013.

CFSB's record of originating loans compares reasonably to its peer group, particularly given the context in which CFSB operates. CFSB reported a fifteen quarter average loan-to-deposit ratio of 48.67%. In comparison, the local peer group reported an average loan-to-deposit ratio of 62.04%. The local peer group average was skewed by two loan-to-deposit ratios considered outliers that were removed. Of the two loan-to-deposit ratios considered to be outliers, one was considered to be significantly higher (107.38%) and the other was considered to be significantly lower (22.10%) than the peer group average.

CFSB's opportunities to lend are impacted by area loan demand and competition from other loan originators. Loan demand is impacted by housing availability and affordability.

### **Lending in Assessment Area**

CFSB originated a substantial majority of its residential mortgage loans in its AA and exceeds the standard of satisfactory performance.

The analysis of CFSB's record of lending in its AA was performed at the bank level. In order to evaluate this record, we analyzed CFSB's record of originating loans inside versus outside of its AA. Further, this analysis focused on CFSB's record of originating residential mortgage loans within its AA, since these loans constitute CFSB's primary loan product.

Lending in the AA was assessed by measuring and analyzing residential real estate loans originated by CFSB during the last two quarters of 2009, and all of 2010, and 2011. We analyzed residential real estate data collected and reported over the evaluation period, according to HMDA requirements. CFSB's residential real estate loan originations included loans for purposes of home purchase, home improvement, and home refinance.

CFSB's residential real estate data revealed that 96% and 95% respectively, of the number and dollar amounts of home mortgage loans originated were within CFSB's AA during the evaluation period. In comparison to the preceding CRA evaluation period, the total number of HMDA-related residential real estate loans originated in the AA during the current review period increased from 542 to a total of 781, or a 44.1% increase.

### **Lending to Borrowers of Different Incomes**

CFSB's lending performance to borrowers of different incomes meets the standard of satisfactory performance. Borrower distribution reflects reasonable distribution among residential real estate loans.

The level of home mortgage loans originated to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The level of home mortgage loans originated to moderate-income borrowers is somewhat lower than the percentage of moderate-income families in the AA. This is mitigated by the fact that competition is strong within the AA. The market share by the top three lenders is garnered by Wells Fargo, JPMorgan Chase, and Howard Hanna Mortgage Services at market shares of 14.32%, 8%, and 7% respectively. In addition, when considering the affordability of housing in the AA, this performance is reasonable. The median cost of housing in the AA is \$87,792, based on 2000 census data. The HUD updated median family income for 2011 is \$64,000. This means that a low-income person earns less than \$32 thousand. Households below the poverty level are 11%. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA. In 2011, of the 318 lenders in the AA, CFSB was ranked 47, with a market share of 0.34%.

Our review of the aggregate lender data for home mortgage loans confirms that CFSB's percentage of lending to both low- and moderate-income borrowers within the AA during the review period was below the performance of other federally-regulated lenders.

Since the results of the demographic and peer comparisons were the same, the performance in this category is considered reasonable distribution.

The level of home improvement loans to low-income borrowers is lower than the percentage of low-income families in the AA. The level of home improvement loans to moderate-income borrowers is near to the percentage of moderate-income families in the AA. This performance is considered reasonable distribution.

Our review of the aggregate lender data for home improvement loans confirms that CFSB's percentage of lending to low-income borrowers within the AA during the review period exceeded the performance of other federally-regulated lenders. Our review of the aggregate lender data for home improvement loans confirms that CFSB's percentage of lending to moderate-income borrowers within the AA during the review period was lower than the performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were similar, the performance in this category is considered reasonable distribution.

The level of home mortgage refinance loans made to low-income borrowers is lower than the percentage of low-income families in the AA. The level of home mortgage refinance loans made to moderate-income borrowers is somewhat lower than the percentage of moderate-income families in the AA. This overall home mortgage refinance performance is considered reasonable distribution.

Our review of the aggregate lender data for home mortgage refinance loans confirms that CFSB's percentage of lending to low-income borrowers within the AA during the review period exceeds the performance of other federally-regulated lenders. Our review of the aggregate lender data for home mortgage refinance loans confirms that CFSB's percentage of lending to moderate-income borrowers within the AA during the review period was near to the other federally-regulated lenders. While the results of the demographic and peer comparisons were mixed, the performance in this category is considered excellent distribution.

**Table 3 Borrower Distribution of Residential Real Estate Loans in AA**

Borrower Income Level	Low			Moderate			Middle			Upper		
	% of AA Families	% of Number of Loans	Aggregate	% of AA Families	% of Number of Loans	Aggregate	% of AA Families	% of Number of Loans	Aggregate	% of AA Families	% of Number of Loans	Aggregate
Home Purchase	19.39	4.87	9.37	18.41	12.73	22.77	21.74	24.72	24.01	40.46	57.68	43.84
Home Improvement	19.39	11.43	10.80	18.41	18.29	21.68	21.74	18.29	24.37	42.07	52.00	43.14
Home Mortgage Refinance	19.39	7.50	4.56	18.41	14.69	15.36	21.74	21.88	22.38	42.07	55.94	57.70

Source 2009-2011 HMDA LAR

## Geographic Distribution of Loans

CFSB's lending to geographies of different income levels within its AAs reflects reasonable distribution and meets the standard of satisfactory performance. There are thirty-six (36) low-income geographies and one hundred, fifty-three (153) moderate-income geographies in CFSB's AA. CFSB's lending in both the low- and moderate-income geographies is proportionate to the population percentage within those geographies at 3.05% and 20.10% respectively. Over 75% of the populations within CFSB's AA are located in the middle- and upper-income census tracts. We did not identify any apparent gaps or areas of low distribution in the bank's lending pattern.

The distribution of home purchase loans to both low- and moderate-income geographies is near to the percentage of both low- and moderate-income families and reflects reasonable distribution.

Our review of the aggregate lender data for home mortgage loans confirms that CFSB's percentage of lending to low-income borrowers within the AA during the review period is near to the performance of other federally-regulated lenders. Moderate-income borrowers within the AA during the review period exceed the performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were favorable, the overall performance in this category is considered excellent distribution.

The distribution of home improvement loans to low-income geographies was near to the percentage of low-income families and reflects reasonable distribution. The distribution of home improvement loans to moderate-income geographies exceeds the percentage of moderate-income families and reflects excellent distribution.

Our review of the aggregate lender data for home improvement loans confirms that CFSB's percentage of lending to low-income borrowers within the AA during the review period is near to the performance of other federally-regulated lenders. Moderate-income borrowers within the AA during the review period exceed the performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were the same, the overall performance in this category is considered excellent distribution.

The distribution of home mortgage refinance loans to low-income geographies is near to the percentage of low-income families. This performance reflects reasonable distribution. The distribution of home mortgage refinance loans to moderate-income geographies is somewhat lower than the moderate-income families and reflects reasonable distribution.

Our review of the aggregate lender data for home improvement loans confirms that CFSB's percentage of lending to low-income borrowers within the AA during the review

period is near to the performance of other federally-regulated lenders. Moderate-income borrowers within the AA during the review period exceed the performance of other federally-regulated lenders. Since the results of the demographic and peer comparisons were favorable, the overall performance in this category is considered excellent distribution.

**Table 4 Geographic Distribution of Residential Real Estate Loans in AA**

Borrower Income Level	Low			Moderate			Middle			Upper		
	% of AA Families	% of Number of Loans	Aggregate	% of AA Families	% of Number of Loans	Aggregate	% of AA Families	% of Number of Loans	Aggregate	% of AA Families	% of Number of Loans	Aggregate
Home Purchase	1.28	0.00	0.51	17.49	16.04	10.40	53.64	63.06	46.76	27.60	57.68	42.33
Home Improvement	1.28	0.00	1.07	17.49	21.98	16.66	53.64	64.84	54.61	27.60	13.19	28.76
Home Mortgage Refinance	1.28	0.00	0.19	17.49	12.46	6.98	53.64	62.61	44.74	27.60	24.92	48.09

Source 2009-2011 HMDA LAR

### Responses to Complaints

CFSB did not receive any complaints about its performance in helping to meet credit needs in the AA during this evaluation period.

### Community Development Test

CFSB’s performance under the CD test is rated Satisfactory. CFSB’s CD activities demonstrate adequate responsiveness to the CD needs of its AA when considering the bank’s capacity, performance context, and the availability of CD opportunities in the AA. In addition, CD activities met area needs for job creation and training, business development and expansion, along with community redevelopment and improving infrastructure as identified through one of our contacts with a local community organization. In addition, CFSB was specifically named by one contact.

### Number and Amount of Community Development Loans

We determined that competition to originate CD loans is significant, stemming from both large regional and other area community financial institutions in CFSB’s AA.

CFSB, over the evaluation period, originated 24 CD loans totaling \$5.2 million within its AA. The CD loans were responsive to AA credit needs. Furthermore, CD loans served to meet area needs for social services, maintained jobs, and expanded businesses that created jobs that helped stabilize geographies in the AA.

Examples of the above-mentioned CD loans originated by CFSB are described below.

- In 2010, 2011, and 2012, CFSB funded five loans for a total of \$817,765. The purpose of the loans was to finance multiple equipment loans to a small business for company expansion and job creation. The company is located in a moderate CT.
- In 2009 and 2012, CFSB originated two loans for a total \$500,000 to a job training agency located in a low CT. The purpose of the loans was to assist LMI borrowers with serious employment barriers with job training, education, and supporting services for life skills.

### **Number and Amount of Qualified Investments**

We determined that competition stemming from both large regional and other area community financial institutions in CFSB's AA for funding CD investments is significant.

CFSB originated two qualified investments during the evaluation period that totaled \$855 thousand benefitting its AA. CFSB originated 2 investments in general obligation bonds. Funds were used to renovate schools in different school districts located in moderate-income CTs. Both investments promoted economic improvements targeted to moderate-income individuals and provided a credit need to the AA.

CFSB over the evaluation period granted four donations totaling over \$80 thousand and \$6 thousand unfunded donations benefitting its AA. The CD donations funded by CFSB, along with volunteer efforts, were responsive to the needs of the AA. CFSB supported a local community foundation focusing on economic development for educational improvements, an organization focusing on LMI housing initiatives, and an organization focusing on low-income initiatives. These donations served the needs of LMI individuals and geographies within its AA.

### **Extent to Which the Bank Provides Community Development Services**

CFSB's representatives, over the evaluation period, participated in several CD services that were responsive to the needs of its AA. A few of the CD services in which CFSB representatives participated are described below.

- A CFSB executive officer lends his financial expertise by serving as chair of the loan review committee of a local community agency. The loan review committee's function is to direct southwestern Pennsylvania businesses to sources of state and federal loan assistance. The committee also focuses on the support of manufacturing and job creation in the region, which includes moderate-income census tracts.
- A CFSB executive officer serves as Chairman of the Board of a community based organization where he provides financial expertise to develop policies,

oversee public funds, and procure services that will help employers and job seekers throughout the local counties. The organization provides job placement assistance, education, training, and counseling to achieve a skilled workforce.

- CFSB executive officers provided advice and assistance in their communities by offering professional advice and guidance relative to dealing with taxes, liens, bankruptcy, student loans, past due property taxes, etc. The initiative was designed to connect Pennsylvanians facing financial difficulties with advice and assistance from professionals in their communities. The service was a collaborative effort of many legal and financial associations.
- A CFSB member of management serves as Co-Chair and Board member of an economic restructuring committee and an economic development committee located in a moderate census tract. The program provides opportunities for existing and future businesses to expand and flourish with economic development.

### **Accessibility of Services**

CFSB's services are accessible to its AA residents through its branch offices and ATM network, as well as online. In order to determine the extent of accessibility of CFSB's delivery systems, population demographics, branches, and ATM locations were considered. All were discussed previously in the description of the institution and AA.

CFSB has an informational website, <http://www.charleroifederal.com>, that provides access to online banking, a mobile site, banking services and products, locations, and identity theft education and tools. The last item is especially important to its aging banking population.

### **Responsiveness to Community Development Needs**

The bank's CD activities demonstrate adequate responsiveness to the CD needs of its AA. This takes into consideration the bank's capacity and the need and availability of such opportunities for development within the bank's AA. There were no identified unmet CD needs during the evaluation period.

We determined that competition to originate CD loans is significant, stemming from both large regional and other area community financial institutions in CFSB's AA. Between the top six banks on the Deposit Share report, there are 408 locations for small- and medium-sized businesses to consider for their lending and development needs showing competitive pressure.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.